

Advanced Medical Technology Association (AdvaMed)
Association of Home Appliance Manufacturers
Computing Technology Industry Association (CompTIA)
Council on State Taxation
CTIA
Detroit Regional Chamber
Flint & Genesee Chamber of Commerce
Grand Rapids Chamber
Medical Imaging & Technology Alliance (MITA)
Michigan Biosciences Industry Association (MichBio)
Michigan Chamber of Commerce
Michigan Chemistry Council
Michigan Petroleum Council
Michigan Retailers Association
Motor & Equipment Manufacturers Association
National Electrical Manufacturers Association
National Foreign Trade Council
Organization for International Investment
Security Industry Association
The Beer Institute
Telecommunications Association of Michigan
Truck & Engine Manufacturers Association

October 10, 2018

Dear Governor Snyder, Senators and Representatives:

As a group of national, state and local business associations that represent thousands of Michigan-based companies, we urge the state to pass SB 1097. This legislation would decouple the state's tax code from the new interest expense deductibility limitations under IRC §163(j). Decoupling from this provision would prevent a corporate tax increase and ensure the state remains competitive for investment from all industries.

The Tax Cuts and Jobs Act of 2017 was a seismic shift in tax policy that dropped the federal corporate income tax rate to 21 percent and adopted new base broadeners to pay for this rate decrease. While Michigan typically updates its federal conformity without fear of unintended consequences, we urge the state to consider whether its state-wide policy objectives are undermined through simple conformity to a completely new federal tax code. For example, economic analysis shows that conforming to the new tax law would increase Michigan's corporate tax base by 9 percent.¹

The ability to deduct interest as an ordinary and necessary business expense is a longstanding principle of Michigan's tax policy that reduces the cost of capital, which helps encourage investment and expansion. On the other hand, limiting interest expense deductibility would raise

¹ ["The Impact of Federal Tax Reform on State Corporate Income Taxes,"](#) prepared by EY for the Council on State Taxation, and its affiliate, the State Tax Research Institute. Released March 5, 2018.

the cost of capital, thereby increasing taxes on Michigan employers. Businesses would have fewer resources to devote towards positive actions, such as investing further in research and development, worker training, improved pay or new hiring.

Furthermore, interest expense deductibility was limited by Congress to pay for a 40 percent corporate income tax rate reduction, accelerated depreciation and immediate expensing. However, Michigan already decouples from federal bonus depreciation rules under IRC §168(k). Therefore, Michigan should decouple from IRC §163(j) because Congress clearly intended for the interest expense deductibility rules to work together with accelerated depreciation to foster economic growth. Restricting interest expense deductibility, without offering businesses accelerated depreciation, is antithetical to this important federal policy objective and misaligns with the pro-growth business environment fostered by this legislature.

Michigan's economic recovery continues to move forward. The state has eight consecutive years of payroll employment growth and an unemployment rate of 4.3 percent in July according to the Bureau of Economic Analysis. Since January 2018, Wisconsin, Indiana, Georgia, Tennessee, South Carolina and Connecticut have decoupled from IRC §163(j). As Michigan competes with many of these states for capital allocation, we urge the state to join them in decoupling from IRC §163(j) to ensure its economy remains competitive.

For these reasons, we urge the state to pass SB 1097. Thanks for your consideration.

Sincerely,

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